

About the Crime Trends and Leading Practices Survey

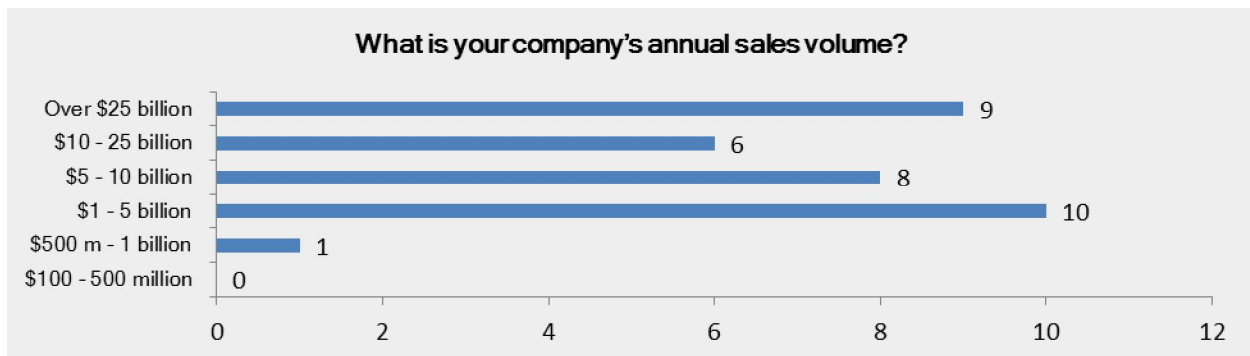
The Retail Industry Leaders Association's (RILA) Crime Trends and Leading Practices Survey was launched in December 2008 in an effort to measure the correlation between criminal activity and the economic downturn among the nation's leading retailers. RILA has continued to monitor crime trends, conducting follow-up surveys in May 2009, January 2010 and August 2010. In August 2010, the survey was expanded to solicit feedback from retailers regarding effective criminal risk mitigation tools as part of an industry-wide collaborative effort to combat retail crime.

Survey participants were asked to report measured or perceived changes in crimes perpetrated against retailers over the past year and to share leading practices for minimizing business risks. Reflective of RILA's membership, respondents represented all retail segments: building/garden equipment, clothing/accessories, food/beverage, furniture/electronics/appliances, general merchandise, motor vehicles/parts, Sporting goods/hobby /books/music and miscellaneous.

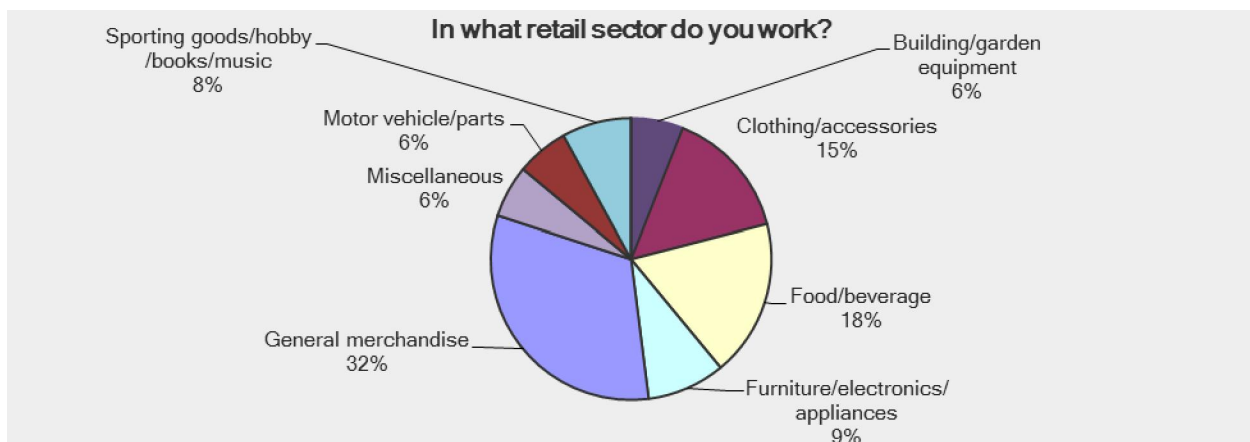
This survey originated with the RILA Crimes Against Business Committee.

DEMOGRAPHICS OF SURVEY PARTICIPANTS

Respondents represent the largest retailers in the country, with nine having sales volume exceeding \$25 billion.



A majority of the respondents (11 of 34) are general merchandise retailers.



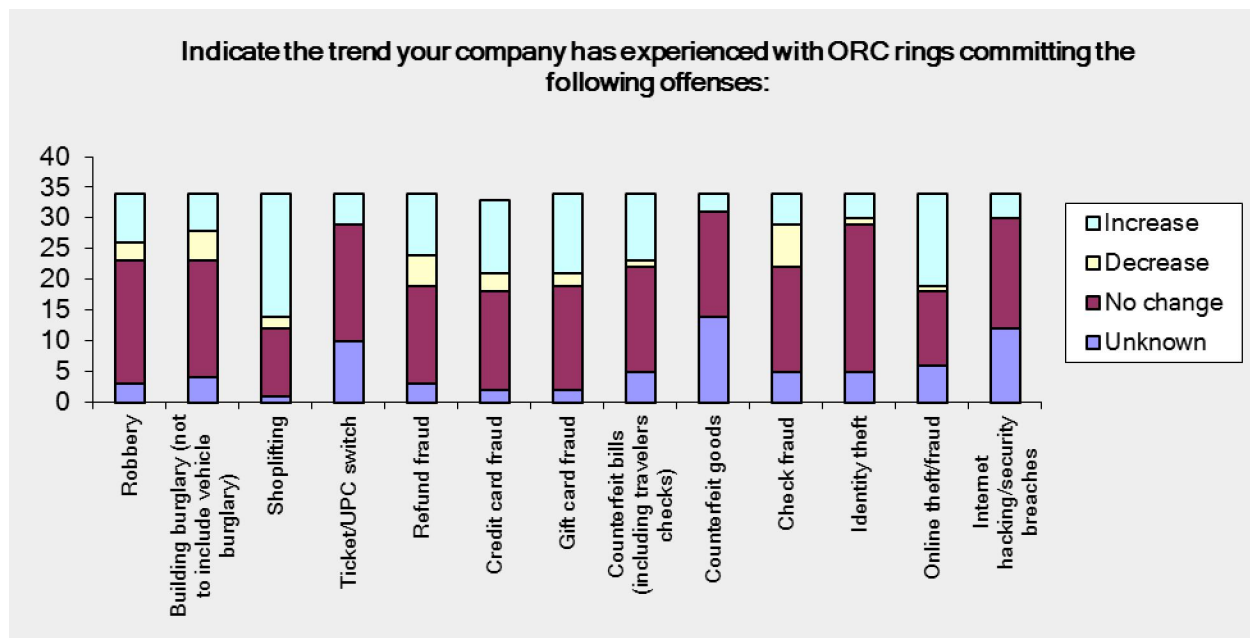
EXTERNAL THEFT

Organized Retail Crime (ORC)

Frequency of Criminal Activity Perpetrated by ORC Rings:

Within most criminal offense categories, a majority of retailers experienced no change in the frequency with which **organized crime groups** targeted them. However, some criminal activity appears to be on the rise. More than fifty percent of participating retailers (60%) reported an increase in the frequency with which organized rings committed **shoplifting**.¹ Additionally, many respondents reported increases in the frequency with which organized rings committed **online theft/fraud** (44%) and **gift card fraud** (38%).

The most significant decreases in reported criminal activity were modest at best.



In addition to the categories of crimes identified above, retailers reported significant increases in the frequency with which organized crime rings committed the following offenses:

- theft of AC units for copper
- grab and runs
- strong arm robberies, particularly with pepper spray
- ORC subjects' affiliation with gang activity

¹ See Appendix for a list of products most frequently targeted by and emerging as top targets of ORC rings as identified by survey participants.

Emerging Methods Used by ORC Rings to Perpetrate Criminal Activity:

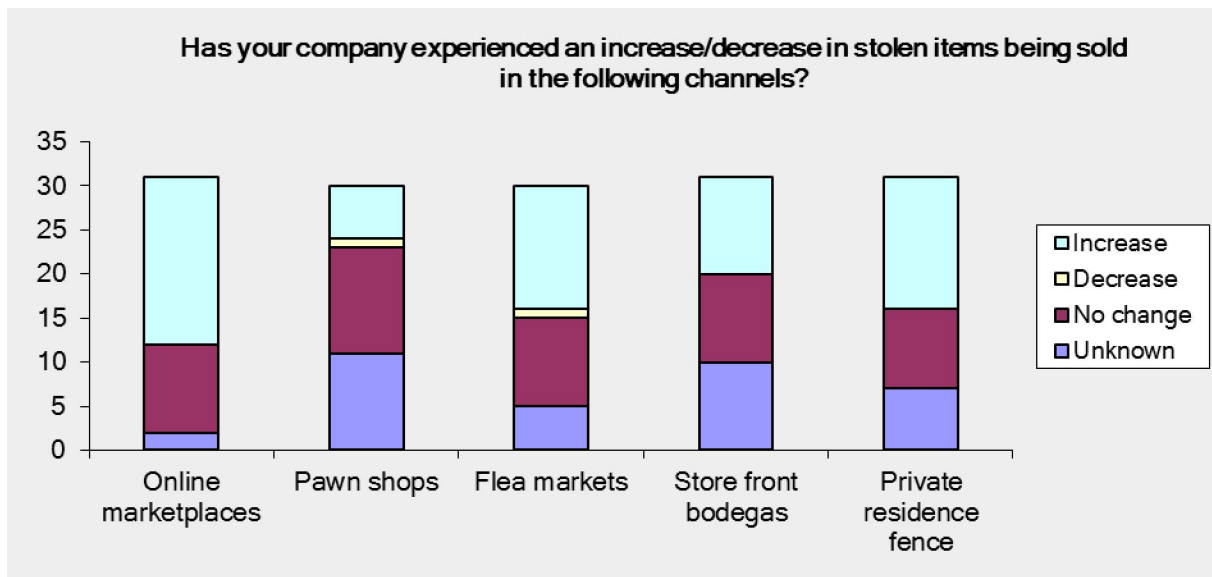
Over the past year, respondents have seen ORC rings use new methods, tactics, devices, tools, and the same methods as in years past but with greater frequency in order to perpetrate crimes against retailers. Those methods include (number in parenthesis represents the number of retailers providing the same response):

- iPhone applications that allow instant upload to online seller accounts
- fake credit card authorization codes at POS
- duplicate receipts
- skimming devices
- walk-outs using side exit/fire doors
- diamond jewelry switch outs with fake diamonds
- better communication devices, more organized
- "distractions" created by multiple perpetrators
- fire door drilling (burglaries)
- use of multiple vehicles
- coupon fraud
- more involvement of "look outs" in the store to help facilitate successful box stuffing and/or straight roll outs of merchandise.
- keeper keys
- booster purses
- modified clothing

Resale of Stolen Merchandise:

Various channels are used by fences to resell stolen merchandise. A majority of retailers (61%) reported an increase in the frequency with which stolen items were resold on online marketplaces. Additionally, private residences and flea markets were popular venues for the resale of stolen merchandise over the past year. Indeed, 48% of respondents and 47% of respondents experienced an increase in the frequency with which their merchandise was resold through those channels, respectively.

“We were disappointed that there were no reported decreases in the frequency with which retailers’ stolen product was resold on on-line marketplaces,” said Lisa LaBruno, Vice President of Loss Prevention and Legal Affairs. “Retailers continue to fight an uphill battle against the resale of stolen goods online, in flea markets and other venues. As long as there are channels through which thieves can resell stolen goods, it will be difficult to stem the tide of organized retail crime. It’s important that we continue to explore state and federal legislative solutions and enhance partnerships with external stakeholders to find a solution to the growing problem of ORC.”



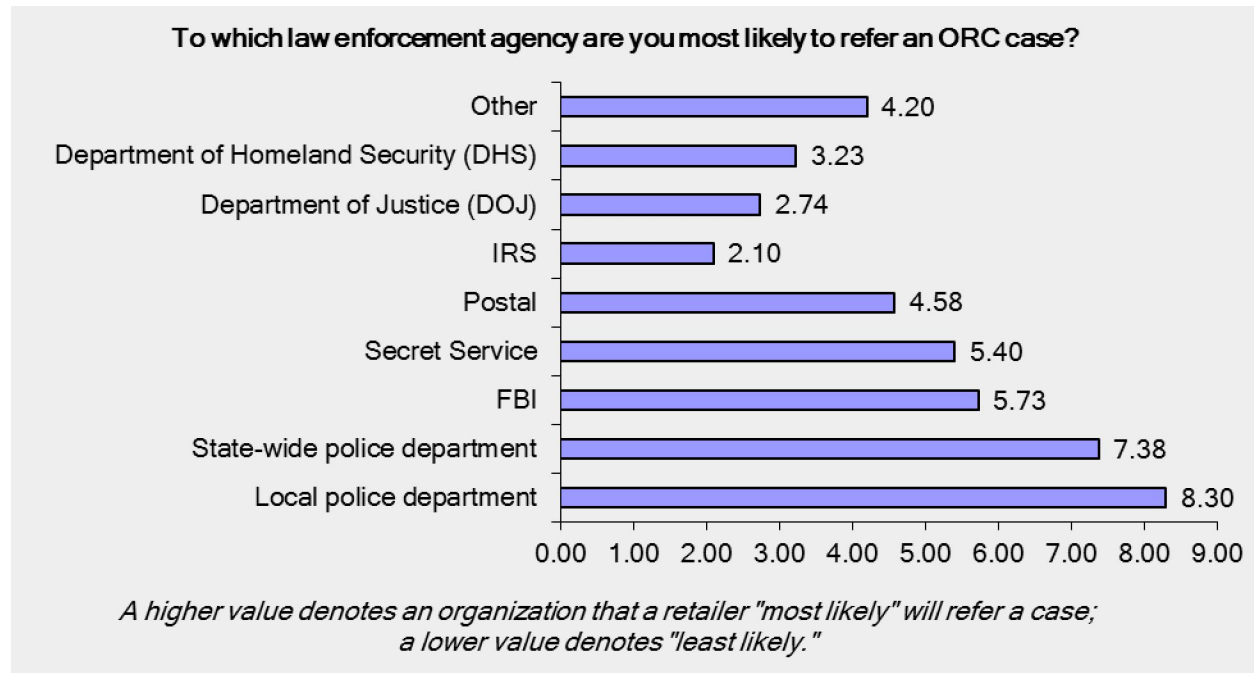
Third-Party Assistance in Connection with LP Investigations:

Retail LP professionals often seek assistance from law enforcement, other retailers, online marketplaces, pawn shops and others to facilitate or support an investigation. Survey results suggest retailers are receiving varying degrees of cooperation from these external sources.

The good news is that LP professionals are routinely willing to help each other. Indeed, 94% of responding retailers reported receiving at least some assistance from other retailers, with 24% of retailers indicating they receive full assistance from their peers. State and local law enforcement continue to be a strong partner to retailer with 91% of respondents indicated that they receive at least some requested information. As in previous years, pawn shops continue to be the least cooperative, with 65% of retailers indicating they receive very little assistance/information. In fact, 53% respondents reported receiving **no** assistance/information from pawn shops in connection with retailer investigations.

Referral of ORC Cases to Law Enforcement:

Retailers rely heavily on their local police departments for assistance in prosecuting ORC subjects. Indeed, 70% respondents indicated they are more likely to refer a case to their local police department than to any other state or federal law enforcement agency. The agencies identified in the “Other” category in the chart below include district attorney, local/state task forces and the USDA.



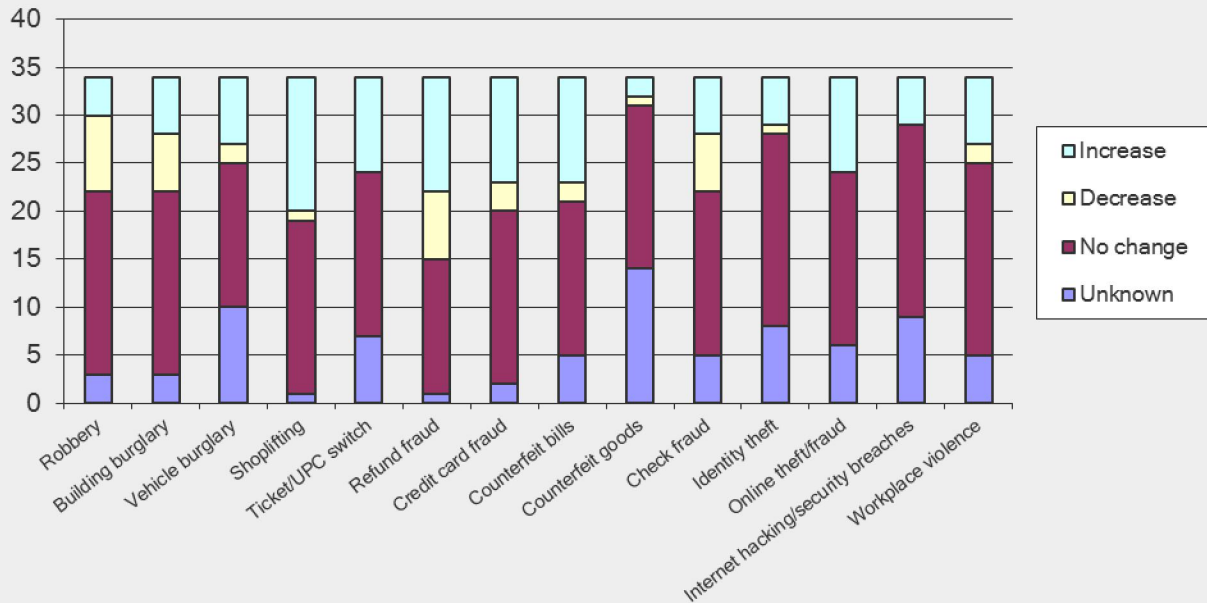
External Subjects Acting Alone

Frequency of Criminal Activity Perpetrated by Subjects Acting Alone:

Within most criminal offense categories, a majority of retailers experienced no change in the frequency with which **subjects acting alone** targeted retailers. As was the case with organized crime rings, many participating retailers (41%) experienced an increase in the frequency with which single perpetrators committed **shoplifting**. Additionally, several respondents reported an increase in the frequency with which individuals acting alone committed refund fraud (35%) and credit card fraud (32%) and used counterfeit bills (32%) to purchase merchandise.

The most commonly reported decreases were robberies, with 23% of respondents and refund fraud, with 20% respondents reporting a decrease in the frequency with which these crimes were committed by a subject acting alone.

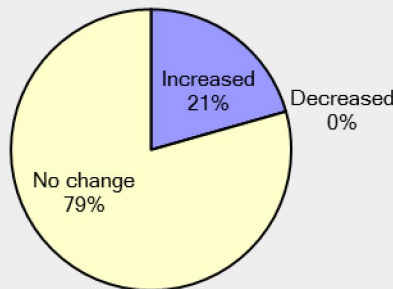
Indicate the trend your company has experienced with individuals acting ALONE to commit the following offenses:



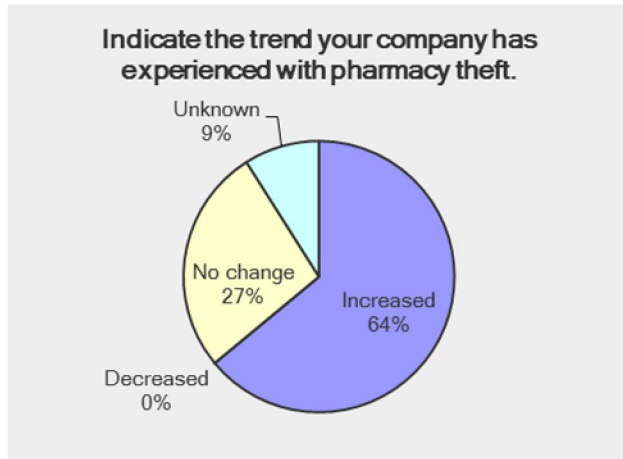
Miscellaneous Trends in Crimes Committed by External Subjects

There have been recent widely-publicized incidents against retailers involving “flash mobs” (for purposes of these survey results, a flash mob references a large group of offenders coordinating efforts to commit large-scale theft at a single retail location at the same time). Most respondents (79%) reported no change in the frequency with which they were victimized by “flash mobs” in the past year. However, twenty-one percent of respondents (21%) reported an increase in this activity.

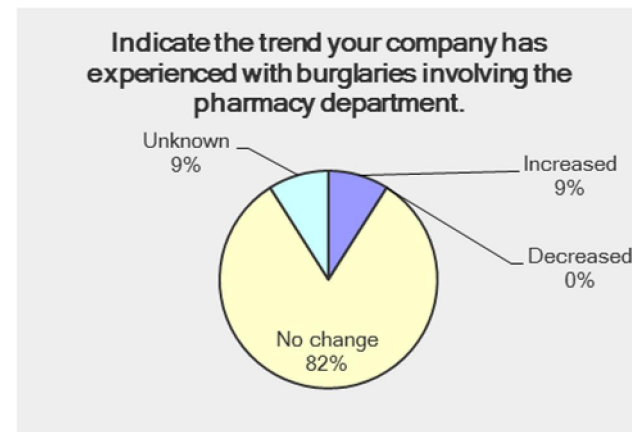
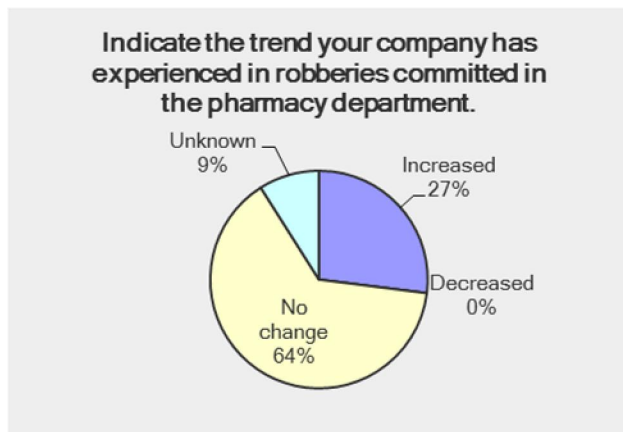
Indicate the trend your company has experienced with flash mobs committing theft.



Of the eleven respondents offering pharmaceutical products, sixty-four percent (64%) experienced an increase in **pharmacy theft** over the past year. Almost half of those retailers (37%) reported an increase in employee collusion in pharmacy theft.



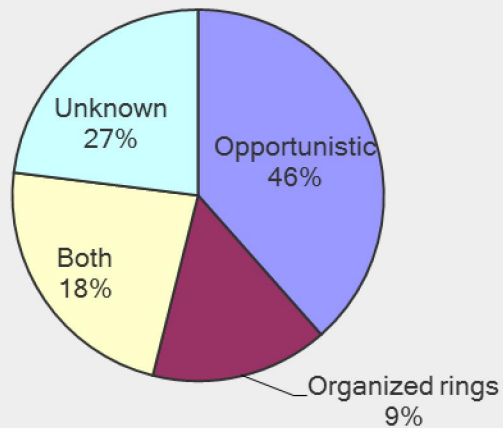
A majority of pharmacy retailers reported no change in the frequency with which robberies and burglaries were perpetrated in the pharmacy department. However, several retailers (27%) did report an increase in the number of robberies committed in the pharmacy department over the past year.



Forty-six percent of those respondents selling pharmacy products (46%) describe the majority of offenders apprehended for pharmacy theft as opportunistic² while 9% of retailers described the majority of offenders as members of an organized crime ring.

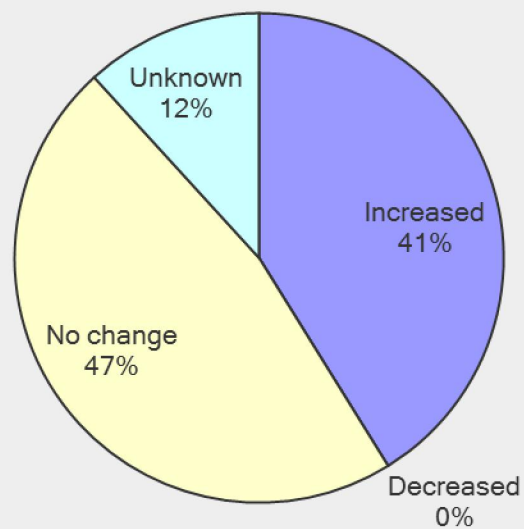
² An "opportunistic" shoplifter generally has no intent to commit theft at the point they enter the retail location, but once inside, considers it and proceeds to commit the act of shoplifting.

How would you describe the majority of offenders who perpetrated crimes involving pharmaceutical products against your company?



Use of force by shoplifters during the apprehension process appears to be on the rise. Indeed, forty-one percent of respondents (41%) reported an increase in the frequency with which shoplifters used force against an employee during an apprehension. No retailer reported a decrease.

Indicate the trend your company has experienced with the use of force/violence by a shoplifter during an apprehension.

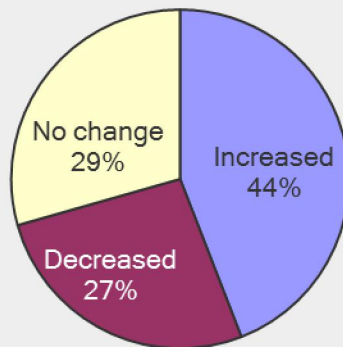


INTERNAL THEFT

Frequency of Criminal Activity Perpetrated by Employees:

Employee theft continues to be a significant risk to retailers.

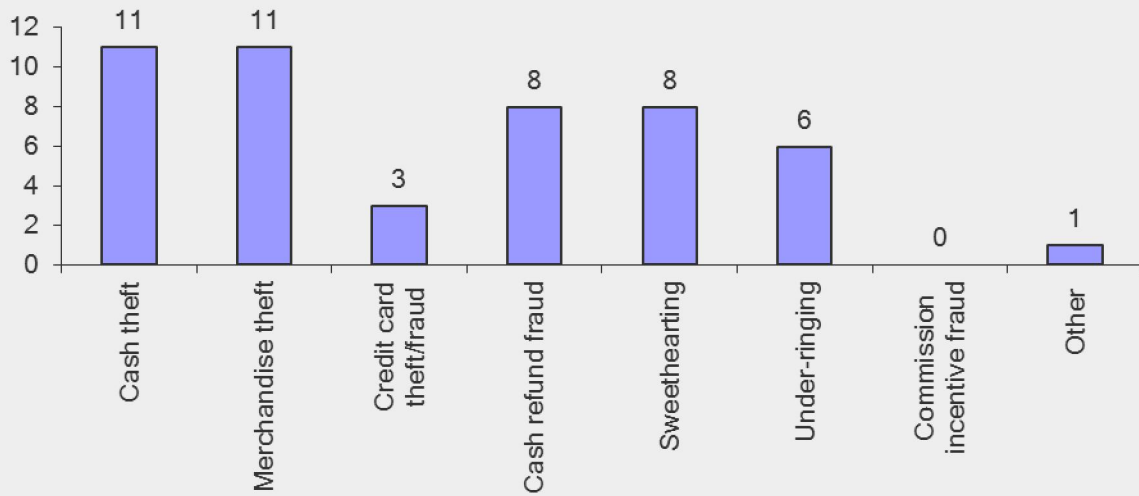
Indicate the trend your company has experienced with INTERNAL THEFT/FRAUD.



Of those retailers reporting an increase in frequency of internal theft, most (73%) experienced an increase in cash and merchandise theft. Included in the “Other” category in the chart below is employee discount abuse (i.e. employee purchases merchandise at a discounted price and resales merchandise online).

“Internal theft continues to be a challenge for retailers,” said Lisa LaBruno, Vice President of Loss Prevention and Legal Affairs. **“ However, retailers are making strides to lessen instances of theft through a variety of strategies including background checks, new hire orientations, awareness programs and various other internal policies.”**

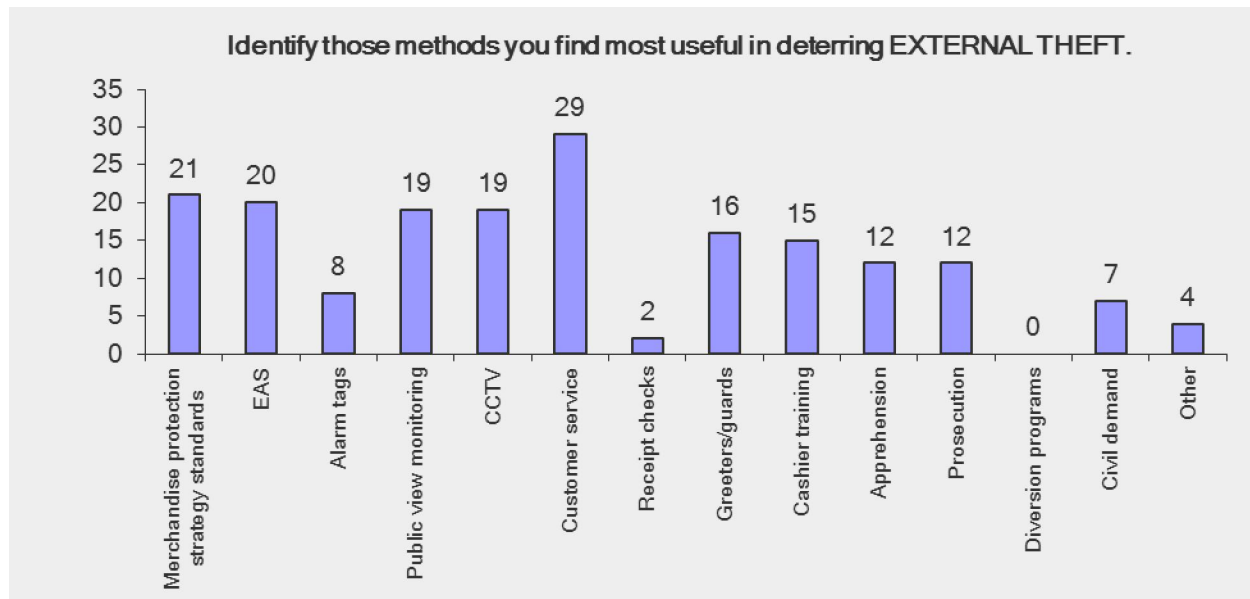
Indicate those categories in which you have experienced an increase in INTERNAL THEFT FRAUD.



DETERRENCE STRATEGIES

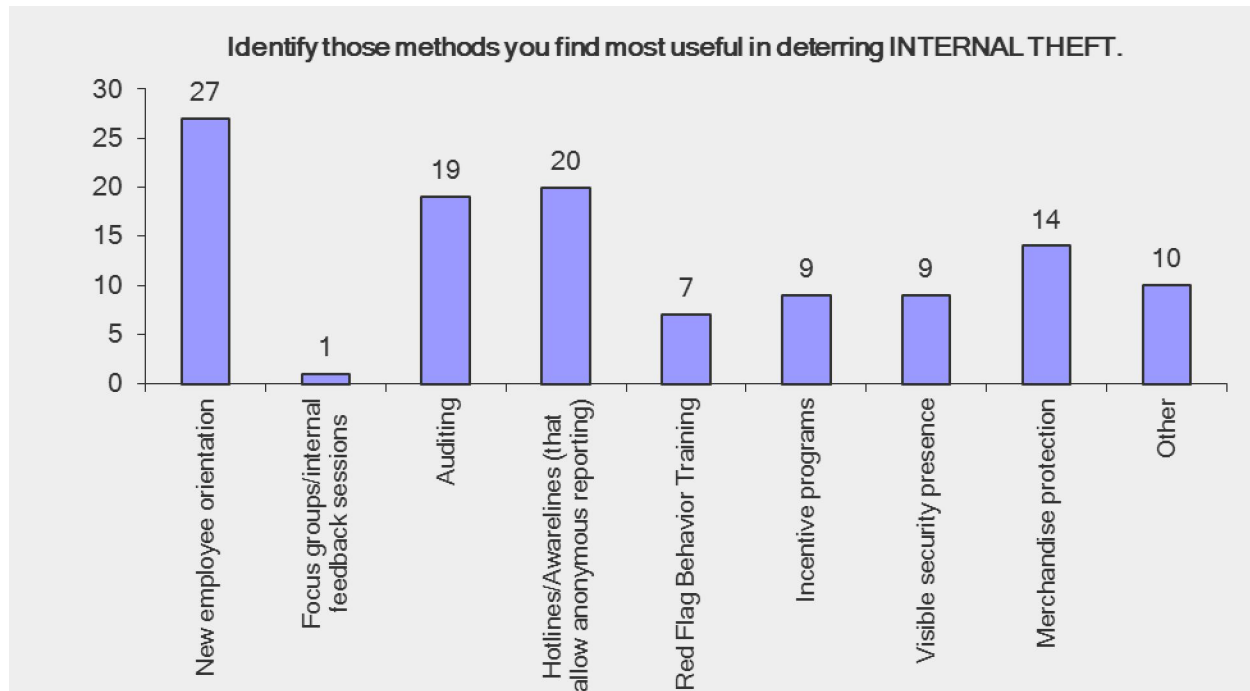
There is some consensus among respondents regarding the usefulness of certain tools to deter **external theft**. Eighty-five percent of responding retailers (85%) identified “customer service” as an effective method for minimizing external theft. A majority of respondents (62%) favor merchandise protection strategies, EAS (60%), public view monitoring (60%) and CCTV (60%). Only 6% of responding retailers believe receipt checks are a useful theft deterrent tool; none selected pre-trial diversionary programs as effective deterrent strategies. Included in the “Other” category in the chart below are:

- signage
- interviewing theft subjects to obtain aggregate total losses



There is also some consensus among retailers regarding the usefulness of certain tools to deter **internal theft**. Eighty-two percent of retailers (82%) and sixty-one percent of respondents (61%) identified new hire orientation and internal hotlines/awarelines as the most effective methods for minimizing internal theft. Internal theft deterrent tools included in the “Other” category in the chart below are (numbers in parenthesis indicate the number of retailers providing the same response):

- monthly awareness programs/training
- company culture of honesty and respect
- shrink culture that starts with leadership
- POS exception reporting
- good wages, good benefits, fair treatment
- solid controls, combined with proactive awareness
- visibility of systems to identify internal fraud
- CCTV



There has been much discussion during RILA's Crimes Against Business Committee meetings and in public forums regarding the steps retailers are taking to deter and respond to **flash mob** activity. Survey participants identified the following steps they have taken or are considering/implementing to address this problem:

- in the process of developing corporate policies and procedures
- updated shoplifting and robbery policies
- communication/awareness
- we have a strong social network monitoring system which we use to pick up any reference to our stores/facilities
- increased safety training to managers
- partnerships with local police departments
- leveraged the current LP audit to more heavily weight the customer service section
- considering use of smart water³ or similar tool
- proactive response based on investigative intelligence

Retailers continue to vigorously research, test and implement **new processes and technology** in their quest to minimize losses resulting from theft. Innovative/new approaches described by respondents include:

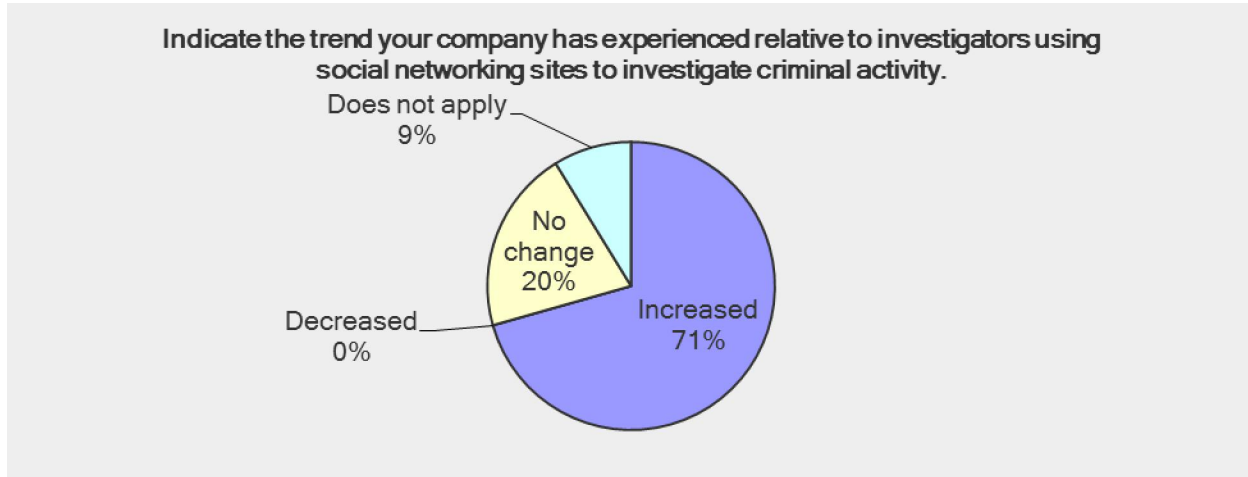
- refund authorization
- keeper boxes
- signage
- locking pegs
- online E-Learning modules

³ "Smart water" is a liquid containing a code which can be read under ultraviolet light and which is applied to valuable items, so if seized by police, the original owner can be identified.

- expanding exception reporting platform from POS to also include inventory exceptions and integration with CCTV
- newly developed pre-employment screening tools designed to identify anti-social behavior in applicants
- addition of external pan tilt zoom (PTZ) CCTV to help monitor activities
- remote monitoring intelligence-led activity; put resource where it is needed
- photocopying ID's on new business with post paid customers who are having credit run (has deterred ID theft and reduced fraud deactivations by 70%)
- part-time associate background screening
- background checks on all key carriers
- facial recognition
- cameras that allow close-up imaging of customers while exiting the store
- habitual offender training to LP
- completion and use of victim impact statements at hearings
- immediate civil demand letter delivery with calculated fines and address validation
- proactive use of CCTV to alert activity
- internet protocol (IP) CCTV systems with remote monitoring capabilities
- targeted PVMs, controlled shelf displays, data analysis
- ORC Workbench by ORC Solutions (identifies online sales of potentially stolen product)

SOCIAL NETWORKING

Seventy-one percent of respondents (71%) report an increase in access to social networking sites **by their in-house investigators** in connection with investigations.



Respondents identified the following social networking sites as providing the most useful information:

- Facebook
- Twitter
- LinkedIn
- Craig's List
- Myspace
- Google
- Foursquare
- Pipl
- Carnivore Lite

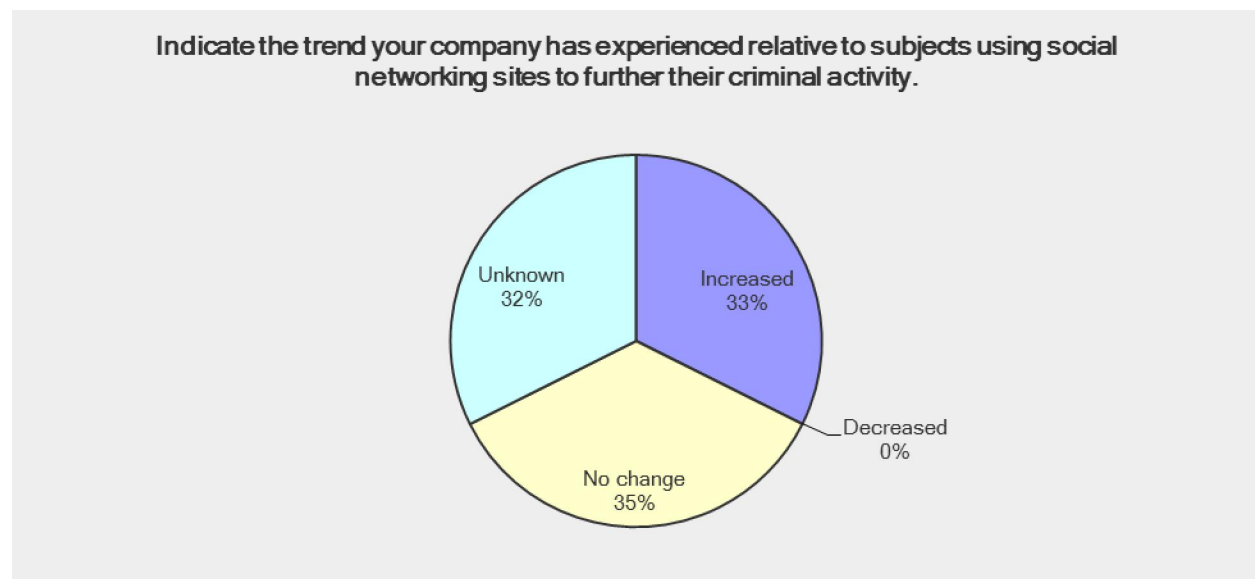
- YouTube
- Flickr

Respondents use social networking sites for various purposes, including:

- monitoring traffic and commentary
- confirm whether known perpetrators are connected to company employees or to any past perpetrators of crimes against our company
- identify locations where goods/funds are being housed/sold
- use key word searches to identify activity
- corporate level investigators use sites for intelligence; sites not accessed by field teams as the information could be sensitive
- identification of subjects
- Facebook has been a huge success; in some operations the subjects have provided intelligence regarding their next move and retail location they are targeting by posting future planned activities
- reviewing subjects' photos
- investigators use Facebook as "view only" and no contact is made with subject

Some respondents (33%) have reported an increase in the **subjects' use of social networking sites** to further their criminal activity. Respondents provided the following additional information:

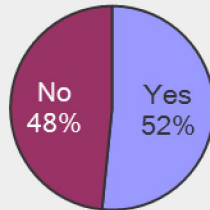
- we have found the sites to be the "communication vehicle" for thieves; easier to communicate to one another about what they are going to do or what they have done
- commentary about their crimes and boasting about methods of theft



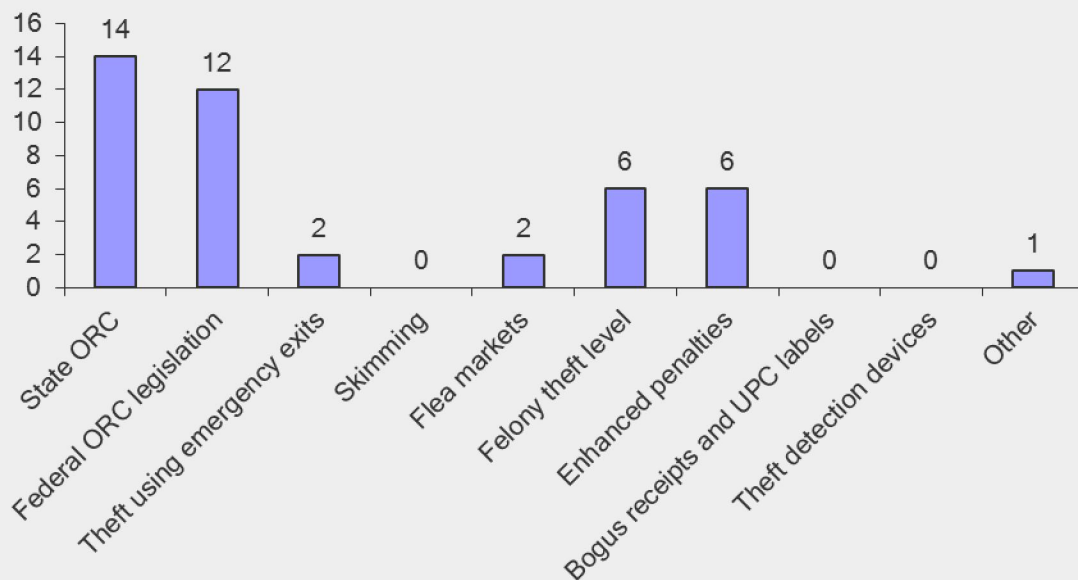
LEGISLATIVE EFFORTS

Slightly more than half of respondents (52%) are actively engaged in legislative efforts related to criminal activity impacting the retail industry. In these instances, the focus of the particular legislation varies among retailers, however most respondents are assisting in the pursuit of state ORC legislation (90%) and federal ORC legislation (75%).

Is your department currently involved with legislative efforts related to any pending state/federal criminal laws?



What is the focus of the pending legislation?



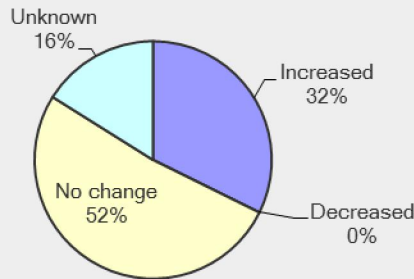
The passing of state ORC legislation has aided retailers in the arrest and/or prosecution of criminal offenders. Respondents identified the following states as having recently passed effective ORC legislation:

- Illinois (5)
- Texas (4)
- California
- Florida
- Arizona
- Ohio
- New Jersey
- Indiana

MISCELLANEOUS

Thirty-two percent of respondents (32%) have seen an increase in the use of diversionary programs by prosecutors and judges as an alternative to prosecution.

Indicate the trend your company has experienced with the use of diversionary/pre-trial intervention programs by courts as an alternative to prosecution.



CONCLUSION

Within many categories of criminal offenses committed by external subjects, a majority of survey participants reported no year-over-year change in the frequency with which ORC rings and subjects acting alone targeted retail locations. However, respondents did report that ORC rings and individuals acting alone are shoplifting more frequently. There were few reported decreases in frequency of external criminal activity.

Despite media reports to the contrary, the majority of participating retailers did not experience an increase in flash mob activity. Nonetheless, retailers have taken steps to mitigate risk, including enhancing awareness and training programs and using social network monitoring systems to monitor chatter among these groups.

No retailer reported a decrease in the frequency with which stolen items were resold on online marketplaces. Indeed, a majority saw an increase in the frequency with which stolen items were resold on online marketplaces. As in previous years, pawn shops are deemed by LP investigators to be the least cooperative of all external stakeholders in the battle against ORC.

The most effective external theft prevention strategies identified by respondents include customer service, merchandise protection strategies and EAS.

Internal theft is on the rise for many retailers. It's not all bad news, however: Several retailers experienced a decrease in employee theft. New hire orientation and internal hotlines/awarelines continue to be the favored internal theft deterrent tools available to retailers.

Not surprisingly, social networking has worked its way into the Crime Trends and Leading Practices Survey. Most respondents reported an increase in the frequency with which their investigators are using these sites to further investigations, with Facebook being the most frequently accessed social networking site by in-house retail investigators.

Appendix

Targeted Products

Top 3 products identified as targeted by organized theft rings

1

Computer books ◦ Baby and kids clothing ◦ Razors ◦ Alli weight loss pills ◦ Men's outerwear ◦ Headlights (mini bulbs) ◦ Denim ◦ Sonicare toothbrushes ◦ Vans footwear ◦ Gillette razor blades and cartridges ◦ Electronics (iPods, televisions, etc.) ◦ Crest White Strips ◦ Jewelry ◦ Analgesics ◦ Batteries ◦ Apple products ◦ Fragrance/perfume ◦ Accessories ◦ Over-the-counter medication ◦ Blackberry devices ◦ Mucinex ◦ Ink ◦ Shampoo ◦ Nicorette gum ◦ Store credits/gift cards ◦ Polo products ◦ Flea and tick prevention ◦ Razor cartridges ◦ Golf balls ◦ Levi jeans

2

Medical books ◦ Women's clothing ◦ Fragrances ◦ DVD ◦ Tents ◦ Power tools ◦ Clothing (latest styles near entrances) ◦ Dyson products ◦ Vans tee shirts ◦ Hanes tee shirts (men's and boy's) ◦ Prilosec antacids ◦ Cigarettes ◦ Razor blades ◦ HBA ◦ Laptops ◦ Toiletries ◦ Designer footwear ◦ iPads ◦ HTC phones ◦ Men's knits ◦ Infant formula ◦ Cosmetics ◦ Computers ◦ Recordable DVDs ◦ Diet pills ◦ Cosmetics ◦ Pet collars and leashes ◦ Under Armour products ◦ Fragrances/perfume

3

Hardcover new release books ◦ Men's clothing ◦ Over-the-counter medicine (cough and cold) ◦ Infant formula ◦ Headlamps ◦ Oxygen Sensors ◦ Women's fashion tops ◦ HBC ◦ Vans accessories ◦ Batteries (Energizer) ◦ Liquor ◦ HABA ◦ Facial creams ◦ Air fresheners ◦ MP3s ◦ Stationary ◦ Ink cartridges ◦ PC accessories ◦ Boots ◦ Blue Ray DVDz ◦ Bluetooth devices ◦ Men's graphic tees ◦ Health and beauty products ◦ Crest White Strips ◦ Digital cameras ◦ Batteries ◦ Razor blades ◦ Faucets ◦ Handbags ◦ Pet grooming tools/clippers ◦ Golf clubs ◦ Leather coats

Top 3 products that are identified as EMERGING top targets of ORC rings

1

Educational games (learning) ◦ Liquid detergents ◦ Razors ◦ Backpacking stoves ◦ High-end cookware ◦ Body wash (Axe) ◦ Over-the-counter medication ◦ Zyrtec ◦ Strivectin ◦ Imodium products ◦ Gaming hardware ◦ Maxfactor products ◦ Energy drinks ◦ Women's knit pants ◦ Allegra ◦ Cellular handhelds ◦ Deodorant ◦ Televisions ◦ Circuit breakers ◦ Rapala fishing lures ◦ Sephora cosmetics

2

Lego products ◦ Hair care ◦ Front Line flea and tick treatment ◦ Thermarest sleeping pads ◦
Electrics (blenders, etc.) ◦ Cosmetics ◦ Infant formula ◦ HBA ◦ Turbo Tax ◦ Over-the-counter
medication ◦ Gaming software ◦ Skin care ◦ Liquid detergents ◦ Men's sport shirts ◦ Apparel and
accessories ◦ ROC skincare ◦ Razors ◦ Power tools ◦ Copper wire and plumbing fittings ◦ Teeth
whitening ◦ High-end baseball bats ◦ Gold

3

Blu-Ray and pre-recorded DVDs ◦ Meat ◦ Liquor ◦ Knives and multi-tools ◦ Curling irons ◦ Small
electronics (memory cards/flash cards) ◦ High-end jewelry ◦ Claritin ◦ Class 2 drugs (pharmacy) ◦
Printer ink ◦ Electricals ◦ Lego products ◦ Men's hoodies ◦ Pre-paid gift cards ◦ Levi jeans ◦
Ceramic tile ◦ Wine ◦ Baseball gloves ◦ Polo-style shirts